

**CITY OF MOUNTAIN VIEW  
MEMORANDUM**

DATE: January 13, 2004

TO: City Council

FROM: Cathy R. Lazarus, Public Works Director

SUBJECT: JANUARY 20, 2004 STUDY SESSION—MOUNTAIN VIEW-MOFFETT  
RECYCLED WATER FACILITY PLAN

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**PURPOSE**

The purpose of this study session is to provide an opportunity to discuss policy and financial matters associated with the upcoming decisions regarding possible financing and construction of a reclaimed water distribution system in the North Bayshore Area.

**ANALYSIS**

Later this month, the City Council will be asked to decide whether or not to partner with the Palo Alto Regional Water Quality Control Plant (RWQCP) in a \$16.6 million project to construct an expanded reclaimed water system in the North Bayshore Area with potential future connections to Moffett Field and the rest of Mountain View. The City of Mountain View share of the project, assuming the receipt of State grant funds, is estimated at \$8.8 million.

The City Council received a briefing about the project scope and time frame at a study session on October 14, 2003. A copy of the staff report and minutes from the study session are Exhibits A and B. More recently, staff prepared a memorandum summarizing the status of the project (see Exhibit C).

The City Council is aware of the very tight decision-making time frame for this project, dictated by the March 1, 2004 deadline to apply for a State grant. Staff recognizes this is a very compressed time frame to make an almost \$9.0 million commitment to a new utility infrastructure in the North Bayshore Area with potential for future geographical expansion. If the City is interested in pursuing a comprehensive reclaimed water

program, the current availability of State funds makes this the most financially favorable time to proceed.

Expansion of the reclaimed water system has been discussed over the years by Mountain View's City Councils since the existing rudimentary system was installed in the early 1980s. Expansion plans never came to fruition because of the significant capital investment required to build the infrastructure to expand the system. As described in the attachments, the City currently has no reclaimed water program because the original 1980s pipeline has failed.

In working with the City of Palo Alto and its consultants, staff identified core policy themes to consider in the decision-making framework. These themes are described below:

- Will the North Bayshore Community accept mandated use of reclaimed water for landscape irrigation?

To receive the State grant, the City must commit to adopting an ordinance mandating the use of reclaimed water for landscape irrigation where available. Several area cities with reclaimed water systems have such ordinances, including San Jose, Santa Clara and Sunnyvale.

Although the City, the Amphitheatre and a few private customers have used reclaimed water for many years, we do not know if other potential customers will have concerns about mandated use of reclaimed water. The aggressive project time frame has not allowed staff to do outreach to North Bayshore businesses, although the City of Palo Alto convened two meetings advertised in Mountain View during the environmental review process. If this project advances, staff will convene a meeting to brief potential North Bayshore customers about the project.

- Can the project proceed if Mountain View does not participate?

Beneficial use of reclaimed water is a condition of the RWQCP discharge permit to San Francisco Bay. If Mountain View does not participate, staff expects Palo Alto would turn to the Santa Clara Valley Water District (SCVWD) to partner with them. In this scenario, Mountain View would have little control over the system, its operation and the cost of reclaimed water. Further, SCVWD staff indicated that as a condition of financial participation, they would want to establish some mechanism to offset the City's allotment of potable water by the amount of reclaimed water used.

At the October study session, City Councilmembers expressed a strong preference for Mountain View to have as much control as possible over operation of the reclaimed system and its future expansion. That will not be possible without financial participation in the project. Further, if Mountain View funds its share of the project cost, reclaimed water will be provided from the RWQCP at no cost, giving us great flexibility in setting its price.

- At the October study session, the total project was estimated to cost \$10.0 million with a Mountain View contribution of \$4.0 million. Why is the current total cost estimate \$16.6 million with a Mountain View contribution of \$8.8 million?

In October, the project included only the cost to replace the reclaimed water pipeline from Palo Alto to Mountain View with no changes to the minimal distribution system in the North Bayshore Area. The current estimate includes infrastructure (laterals and irrigation modifications) to make reclaimed water available to the entire North Bayshore Area, adding about \$4.8 million to the project. These Mountain View costs, if included in the project now, are eligible for partial funding from the State.

The October cost estimate assumed State grants would offset 40 percent of the total project cost. Recently, State staff advised Palo Alto staff a 25 percent grant is more likely, given State-wide competition for the grant funds.

One option to reduce the City's funding obligation is to delete the extension to Moffett Field. Moffett Field representatives have not made a firm commitment to use recycled water and without such commitment, the State is unlikely to apply funds to that portion of the project. Deferring the extension to Moffett reduces the total project cost by approximately \$1.4 million and Mountain View's share by approximately \$1.0 million.

- Can this project be justified on the basis of economics alone?

It is unlikely reclaimed water sales will generate sufficient revenues to recover both the costs of system operations and capital investment. The fundamental question is whether the project should be judged solely on its economics or on its beneficial use.

We know the cost of potable water will increase substantially in the next few years. San Francisco, which serves the North Bayshore Area, is preliminarily projecting a

17 percent increase over the next two years. Customers with access to reclaimed water will be able to minimize increases in water cost by using reclaimed water, typically priced lower than potable water to encourage its use.

The benefit of increased reclaimed water use may accrue to the rest of the City during a drought when the City's water wholesalers, San Francisco and the SCVWD, mandate water conservation. Potential benefit will depend on how the conservation targets are calculated at that time. The other consideration is that maximizing use of recycled water is the "right thing to do" from an environmental and conservation perspective, considerations that are not easily valued in a traditional cost/benefit analysis. When fully implemented in the North Bayshore Area, reclaimed water could reduce San Francisco water purchases by as much as 10 percent.

- How will a reclaimed water system affect water and wastewater rates?

The impact to the Water and Wastewater Funds depends on how the project is financed. Historically, reclaimed water has been part of the Wastewater Fund. If design and construction of the system is funded by the Shoreline Regional Park Community Fund (Community) reserves without debt service or by bonds issued and repaid by the Community, operational costs could be recovered through the pricing and sale of the reclaimed water with no wastewater rate impact. If capital costs are financed (bonds or loans) by one of the utility funds, there will be rate impact.

If the Community funds the capital cost, the financial position of the Wastewater Fund is anticipated to improve through the increase in reclaimed water sales. The Water Fund is anticipated to have a negative impact and will lose income because of lower water sales, potentially affecting rates. Regardless of funding strategy, some balancing of costs between the Water and Wastewater Funds might be considered since both funds benefit from the conservation aspects of reclaimed water.

- What happens if State grant funds are not received?

Staff believes the potential for State funds is the key to proceeding with a project of this scope at this time. If grants are not forthcoming, the scope and cost of the project should be reconsidered to identify cheaper ways to meet RWQCP discharge requirements.

**NEXT STEPS/COUNCIL ACTION**

The next step in the process is for the City Council to take formal action on project participation. This is tentatively scheduled for the January 27, 2004 meeting. A formal commitment to fund the project and adopt a mandatory use ordinance will be required at that time to allow the grant application to be submitted. A "Letter of Intent" between the City of Mountain View and the City of Palo Alto will also be recommended to formalize the agreements between the two agencies.

If Mountain View elects to participate, a midyear Capital Improvement Project (CIP) from Community or wastewater reserves may also be required this fiscal year to fund system design. Decisions regarding the exact method of construction financing can be made later after design is underway and more precise construction costs are known.

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Approved by:

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CRL/JB/8/CAM  
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Attachments: Exhibit A: October 14, 2003 Study Session Staff Report  
Exhibit B: October 14, 2003 Study Session Minutes  
Exhibit C: January 9, 2004 Status Update Memo

cc: Mr. William Miks—Manager, RWQCP  
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